
SATYAM FIASCO – TIME FOR INTROSPECTION

After the leakage of SATYAM FIASCO every Chartered Accountant is bowing his head in shame because of the loss of profession's reputation and trust reposed by the society and the nation at large. In the light of said catastrophe, it is a general belief that our brothers have been grossly negligent in discharging their professional duties and perhaps have committed breach of trust with their ethically and legally incorrect conduct. We should take this episode as a right opportunity to put up our house in order.

If we contemplate for a while, in our view following are the root causes for this sorry state of affairs:

- a) **FEEBLE PUNISHMENT POLICY:** In today's time our punitive provisions are very absurd. The process of proceedings is dead slow and punishment meted out is very meek. In fact it encourages the dishonest and discourages the honest. In January 2009 month's journal a case was reported where the guilty member made mockery of proceedings by not appearing before the Hon'ble High Court. The conduct of the member was highly inappropriate from moral and professional point of view. But strange, the punishment meted out was just one month's removal from membership register and that too after 20 years of the reported complaint. In good old times the public reprimand for a responsible professional would have been worse than death, but in today's highly polluted world such provisions are simply not workable. Hence the punitive provisions should be made stringent, harsh and speedy.
- b) **FAULTY SYSTEM OF APPOINTMENT OF AUDITORS:** Presently for all practical purposes the management only appoints the auditors, whereas he is supposed to report to the shareholders. In today's time where there has been fast erosion in human values it is increasingly becoming difficult to report against the interest of management and promoters. In fact it is a common belief that management pays to auditors for protection and not for auditing services. It is the feeling among the auditees (including Government) that bigger the audit firm, higher the protection. Hence for all the institutions where public money and public interest is involved the auditor should be appointed by any regulatory authority and there should be a mandatory change of auditors after say every 3 years, and remuneration for audits should be fixed rationally on some uniform criteria. It is generally observed that most of the audit assignments are given to big firms without taking into consideration the fact that required talent is available with Small and medium firms also and hence they should also be involved in this system. In India the professional depth and devotion of small and medium size audit firms are of quite high level but unfortunately their potential remains heavily under utilized. One of the main factors responsible for such under utilization is inadequate infrastructure at their disposal. However, it is only preliminary that for the evaluation of the proficiency of a professional firm, the depth and integrity should carry primary weightage rather than the size of the firm. But the big corporate groups are not ready and willing to place faith in SME audit firms. Given a chance, we are sure the SMEs, if tested preferably as joint auditors would render far more efficient services. It is universally accepted principle that monopolization or cartelization in any form will breed decadence, inequity and improbity, as such all civilized systems abhor it. Instead of allowing few firms cornering all the professional work due to globalization or for that matter any number of reasons imaginable under the sun, our alma mater should take the lead and act as a catalyst which sees to it that professional work is not the exclusive preserve of chosen few but every audit firm has equality of opportunity in rising to its true potential in this rapidly changing world, we believe, despite being all said and done, our profession in India is second to none in this wide world (ask anyone who is preparing to take the merciless examination standards of our

Institute). Of course management should be free to assign consulting, internal audit and any other type of professional services to professionals of their choice.

- c) **ALLROUND FALL IN HUMAN AND SOCIAL VALUES:** SATYAM FIASCO is manifestation and representation of present culture of façades, falsehood, greed, prevalence and predominance of ambitions over morals and ethics. This is a national problem and problem of whole humanity. As Chartered Accountants we are part of society and cannot remain in isolation, and the Institute cannot do much by making rules and regulations to arrest this FALL. However, the institute can promote systems and programs which inculcate, nourish and foster human values among members.
- d) **LOSS OF INDEPENDENCE DUE TO EXCESSIVE SOLICITATION:** There has been increasing tendency in profession to soft solicit the professional work by indulging in all sorts of gimmicks including presentation of awards, sponsoring events, surrogate advertisements, promotions etc. Consulting firms represent themselves as virtual chartered accountants. Our visionary forefathers made safeguarding of the independence as very edifice of our code of conduct. But over the years, though in form we may be fully adhering to the code of conduct but in spirit we have given a complete go bye to the solicitation provisions and this is the prime reason for impairment of our independence and consequent miserable state we have allowed ourselves to land into. It is firm belief among investors that satyam saga is only a sample and many other companies' financial statements are factually incorrect. Thus we are of the opinion that all types of soft solicitation practices whether visible or invisible should be fully curbed and there should be a blanket ban on such activities.
- e) **GENERAL INERTIA AND INDIFFERENCE AMONG THE MEMBERS:** It is often said that an institution suffers less because of activities of its bad members and suffers more because of inactivity, inertia and indifference of its good members. We should emulate alumni of Indian Institute of Technology and Birla Institute of Technology, who after attaining success in their professional life, contribute handsomely for the qualitative growth of their Alma mater. This spirit is dismally absent in our profession. Hence we should study the methodologies of professional institutions of repute to motivate the well placed and reasonably placed members to contribute their intellect and resources for continuous welfare of the profession and the institute.

We won our freedom because of selfless leadership of eminent and brilliant persons, but our hard earned freedom is on the verge of collapse on account of massive corruption resulting because of the fact that our today's leaders have made politics the big business. Fortunately for C.A profession till now the leadership of the profession is by and large in safe and able hands. But we have to be watchful and ensure that in future also leadership is never made SPVs of personal professional growth. Member of impeccable character, high enthusiasm and service motive only should be allowed to provide leadership to the profession.

In our view the term of president should be made 2 years to have continuity of the leadership.

- f) **LACK OF EMPHASIS ON MINIMUM REQUIRED BASICS OF PROFESSION IN SEMINARS:** Off late it is observed that there has been excessive glorification of big 4 firms in various seminars and programs of the institute. There has been a tendency to create a FAÇADE that there is no intelligent professional life outside the portals of these big 4 firms. It is true that we have lot many worthy men in big 4 firms who are jewels of our profession and we salute their illustrious contributions for the qualitative growth of the profession. But quantitatively 85% of the profession comprises of small and medium firms (though fees volume wise it may be other way round). Hence the seminars and programs should discuss

more and more subjects which are of practical relevance to this vast majority. Though for academic knowledge the trends in global practices should be discussed but from day to day practice point of view the basic minimum subjects like Statement on Auditing Practice, CAAT, evolution of accounting standards for SMEs and many such basic practice matters need to be discussed more and more.

Ironically most of the speakers present high sounding subjects which have no practical use to this 85% majority.

Please note that prima facie the SATYAM FRAUD occurred not because of lack of any special knowledge but because of non adherence to basic minimum auditing standards.

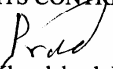
- g) **SYSTEM OF TAKING SUO MOTO COGNISANCE:** Many times a member may indulge in fraudulent practices, cheatings and other wrong doings of moral turpitude which come to light because of newspaper reporting or otherwise. Suo moto proceedings should be initiated by institute without receipt of complaints in such cases. Institute should be empowered to order special audit of any organization if there are reasons to doubt and if image of the profession is at stake.

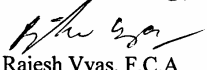
IDENTIFICATION OF PERSONS INVOLVED: Firstly as a healthy tradition the elected representative members connected with the firm should be asked to resign from all the Institutes posts till their firm's name is absolved from public perception of gross negligence and professional misconduct.

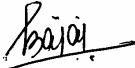
Secondly members of high repute, intelligence, sharp analytical skills and experienced in audits of such large magnitude should be requested to conduct a detailed peer review and rather parallel analysis of company's records to identify the persons involved. Further not only the statutory auditors but all chartered accountants involved in the fiasco whether as audit committee members, accounts executive, merchant bankers or in any other capacity should be held accountable and sternly punished for wrong doings if any.

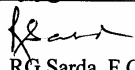
"LASTLY, TO SALVAGE THE IMAGE OF PROFESSION IT IS OF PARAMOUNT IMPORTANCE THAT THE PENAL PROCEEDINGS SHOULD SPEEDILY BE COMPLETED AND SWIFT ACTION (BOTH INTERIM AND FINAL) BE TAKEN AS IT WAS TAKEN BY U.S. AUTHORITIES AGAINST ARTHUR ANDERSON IN CASE OF ENRON FIASCO."


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(With request to all our members to exchange their views freely and frankly for strengthening of our beloved and dignified profession in this hour of grave crisis.).